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Bureaucratic Reform in China: Tearing Down the Temple

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Comments and queries regarding this publication may be directed to the Chief of Production, Office of East Asian Analysis.

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Bureaucratic Reform in China: Tearing Down the Temple

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The State Council is determined to adopt firm measures to alter the intolerable low efficiency (of China's bureaucracy) resulting from overlapping and over-staffed administrations, with their multitiered departments crammed full of superfluous personnel and deputy and nominal chiefs who engage in endless haggling and shifting of responsibilities.

Premier Zhao Ziyang,
National People's Congress,
December 1981

Deng Xiaoping, Premier Zhao Ziyang, and other reform leaders recognize that only sweeping changes in structure and personnel will ensure the long-range success of their program and—given Deng's age and central importance—that time is short. The bureaucracy is not only an obstacle to Deng's reform program, but is also a reservoir of competing interests that must be diluted if arrangements for Deng's succession are to proceed smoothly.

The reformers have not announced specific plans, but it is possible to identify their general goals and make a preliminary assessment of the obstacles to and prospects for reform. The reformers will win partial victories on important issues—such as eliminating some ministries and weeding out cadre ranks—but they will not succeed in creating the responsive, professional bureaucracy they want to carry out their program.

The Agenda

Deng, Zhao, and their political allies have never had any illusions about the difficulty of reordering China's labyrinthine bureaucracy, described by Deng as "a gigantic sacred temple blocking the way to progress." Earlier attempts to remedy individual problems have failed, largely because of bureaucratic resistance and the interrelated nature of specific obstacles. The

reformers believe they can overcome these problems only by a major reorganization of government to simplify lines of authority and rid the bureaucracy of old, incompetent, and politically suspect administrators.

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The reformers' goals include:

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- Reducing the more than 100 ministries, commissions, and bureaus now subordinate to the State Council, which are led by approximately 1,000 ministers and vice ministers and nearly 5,000 bureau and section chiefs.
- Delegating day-to-day decisions to lower levels.
- Forcibly retiring aged or ailing officials and removing those who are unwilling or unable to implement policy.
- Clarifying organizational responsibilities, eliminating overlapping jurisdictions, and preventing basic-level party committees from interfering in the daily work of professionals within administrative and production units.
- Establishing merit-based recruitment and promotion criteria and setting standards of official accountability.
- Eliminating officials connected to the disgraced Gang of Four and loyal to policies and values now branded as "leftism."

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The reformers have disclosed few details but appear ready to move out of planning and into implementation. Guidance circulating in late November indicated that Beijing wanted a list of each organization's problems submitted no later than 20 December, and we believe that a week-long party meeting was held in mid-December to detail plans to senior officials.

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Rumors have reached Hong Kong's leftist press often a reliable source on Chinese developments that four State Commissions will be abolished: agriculture, energy, machine building, and capital construction. This points to a major restructuring in the sectors of those commissions, and rumors also indicate that two separate trade bureaucracies will merge.

[REDACTED]

[REDACTED]

Obstacles

Zhao's proposal of a far-reaching bureaucratic reorganization to the National People's Congress indicates that the top leadership supports, or at least has acquiesced in, the idea, if not the details. The main opposition to the program will come from the middle ranks of the bureaucracy, where well-entrenched central and provincial officials form a core of resistance.

[REDACTED]

The success of the reforms depends upon compliance by the very officials whose livelihoods are threatened in the process. Because many have attained their jobs through personal loyalties or political means, they will be difficult to dismiss or reassign. It is not uncommon for Chinese officials to flatly refuse new assignments and to continue working alongside their replacements. The documented ability of lower level officials to resist central initiatives accounts for much of the skepticism that greeted Zhao's announcement at the National People's Congress in December.

[REDACTED]

Obtaining the cooperation of such individuals will depend largely on political compromise and the alternative living and job arrangements that Beijing can provide. Such arrangements will be difficult to make. Senior officials enjoying relatively high salaries, comfortable living quarters, and additional perquisites are not reassured by Beijing's protestations that they will

be taken care of in retirement. Those scheduled for reassignment or demotion know that the wholesale paring of the size of government will diminish the number of desirable jobs. Personnel will be vying for fewer positions, and Beijing has provided no clear answer to these concerns.

[REDACTED]

Reducing the number of positions is supposed to facilitate both administrative and economic efficiency, but China may lack competent officials. From 1949 to 1979 China produced only 3 million university graduates. Professional managers in the Western sense are almost unknown. According to a senior official of the Chinese Academy of Social Sciences, less than 10 percent of China's 400,000 plant managers have college degrees; most of the rest are former guerrilla fighters. The Cultural Revolution compounded manpower difficulties by causing China's most promising prospective officials to forgo 10 years' training and experience.

[REDACTED]

Those affected will seize every opportunity to slow reform in hopes that policy will change. Beijing will probably follow past practice and seek to preempt bureaucratic foot-dragging by announcing timetables and deadlines, by saturating the media with reorganization propaganda, and by dispatching inspection and advisory teams to lower levels. These measures, however, may be counterproductive. Each missed deadline will encourage the recalcitrants and each new pronouncement from Beijing will be studied for loopholes, changes in policy, and indications of a lessening of will. Beijing must keep the pressure on and maintain the appearance of unity and a sense of momentum—a difficult task given the controversial nature of the program.

[REDACTED]

Past reforms of the bureaucracy have been short lived. In 1958 the number of ministries was reduced from 41 to 30, but by 1965 it was approaching 70. The Cultural Revolution virtually dissolved the state bureaucracy, and the present 100-plus overstaffed organizations were built from scratch. The proliferation of government agencies was and will remain a response to the growing complexity of the task of managing China's vast society and economy.

[REDACTED]

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Outlook

In the short term, Deng, Zhao, and their political allies should succeed in rearranging the central bureaucratic apparatus by wholly eliminating some organizations and reducing others. They also may accomplish some of the major personnel changes desired at the national level: many overaged, incompetent, or politically leftist individuals will be retired or demoted, and attempts will be made to institute systematic review procedures to keep the process alive. Political horse trading will abound for the duration of the process, however, and, if the past practice of the reform group is any guide, short-term gains will be purchased at the cost of long-term improvement. The magnitude of the task and the resistance it will arouse virtually guarantee that Beijing will not meet its one-year deadline. [REDACTED]

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Success at the center may be achieved at the cost of complicating the process in the provinces. The measures under consideration in Beijing almost certainly will dump large numbers of ex-central personnel on lower levels. The provincial governments may be swamped with displaced central workers for whom there are no jobs. If past practice is a reliable guide, provincial-level units will follow Beijing's lead and relegate the problem to the next lower level. [REDACTED]

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More important perhaps, organizational reform will not overcome the problem of individual workstyle and will not of itself produce energetic, capable officials. The Chinese bureaucrat approaches his career conservatively. A 2,000-year tradition of bureaucratic organization has taught the Chinese not to lead but to follow; the politics of the Mao era have taught him that the wisest course is often to do as little as possible and certainly never take the initiative. After the new bureaucratic structures are in place, all the old forces—cronyism, self-preservation, staff expansion, and inertia—will again creep in. [REDACTED]

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Japan: Economic Outlook

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Tokyo is maintaining publicly that continuing an expansive monetary policy while holding inflation down will revive Japan's domestic economy in FY 1982 (1 April 1982-31 March 1983) and eventually trim the trade surplus. But even with its commitment to fiscal austerity, the government officially forecasts that GNP will grow 5.2 percent in FY 1982, a sizable increase over the 4 percent projected for FY 1981.

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Assuming the world economy continues a slow recovery and oil prices remain stable, we believe Japan's GNP should expand 4.3 percent, with domestic demand contributing as much as 3 percentage points.

Official Optimism

The government is counting on an upswing in domestic demand, led by consumer spending and housing construction, to boost GNP growth in FY 1982 and reduce dependence on exports. Consumers are expected to spend more as inflation slows and the 7.8-percent wage increase secured by labor unions in major industries in FY 1981 take effect. Residential construction is expected to rebound in FY 1982 as interest rates fall.

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In the foreign sector, the government acknowledges that a large current account surplus will be unavoidable in FY 1982. EPA estimates it will reach \$12 billion, compared with \$9-10 billion in FY 1981. Because of yen appreciation against the dollar and slower growth in key overseas markets, Tokyo anticipates export growth to slow.

A More Pessimistic View**Japan: Comparison of Forecasts for Real Economic Growth and Trade**Percent Change
Except Where Noted

	CIA Forecasts		Japanese Forecasts	
	FY 1981	FY 1982	Official FY 82	Private ^a FY 82
GNP	3.5	4.3	5.2	4.1
Consumption	0.1	2.6	3.9	3.8
Corporate investment	0.4	4.3	7.7	6.0
Residential construction	2.1	5.9	10.4	4.2
Consumer price index	4.4	4.1	4.5	3.9
Wholesale price index	0.4	0.6	3.0	0.6
Current account balance (billion US \$) ^b	7.0	18.5	12.0	24.6
Exchange rate (yen per US \$)	224.1	212.5	219.0	197.8

^a Japan Economic Research Center.^b Calendar year.

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- The prestigious Japan Economic Research Center recently lowered its FY 1982 growth forecast from 5 percent to 4.1 percent.
- Another leading think tank, Nomura Research Institute, predicts FY 1982 economic growth will be held to 3.9 percent.

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Underlying the private pessimism in Tokyo is Suzuki's policy of fiscal austerity. In his drive to balance the budget by FY 1984, Suzuki (with the strong help of the Finance Ministry) has held the budget for total general accounts expenditures in FY 1982 to a 6.2-percent increase, compared to almost 10 percent in FY 1981. In particular, public works spending will remain flat. Although some interest rates on loans for housing and small business have dropped, funds for housing and small business from the Fiscal Investment and Loan Plan (FILP) have not been increased enough to reach planned levels of construction and investment. The FILP was increased only 4.1 percent, compared to a 7.2-percent increase in FY 1981. []

The CIA Forecast

Because Suzuki is unwilling to boost public spending, we believe that GNP growth will be well below the 5.2-percent official goal. Overall growth could reach 4.3 percent, up from the 3.5 percent we project for FY 1981. []

We expect to see consumer spending increase as real wages rise because of lower inflation and yen appreciation. Nonetheless, continued high unemployment, excess capacity, and falling profits in many industries will weaken labor's bargaining power during the spring round of wage negotiations. We expect unions in major industries to gain a 6- to 6.5-percent wage settlement, less than both 7 percent the government wanted for this year and the 7.8 percent gained in 1981. The lower settlement plus even lower wage gains by employees of small businesses, reduced overtime, and smaller winter and summer bonuses will probably hold the increase in actual earnings to around 5 percent. []

Current low interest rates and easy credit should encourage a recovery in investment and construction, but again our estimate falls short of the official forecast. Firms, especially nonexporting industries, will remain cautious in rebuilding their inventories and expanding plant operations. Housing construction could increase by about 6 percent, but more stimulus in the form of public loans for home mortgages would be necessary to achieve the official goal of 10.4 percent. []

Domestic and Foreign Demand: Contributions to GNP

Percentage Points

	FY 1981 Forecasts		FY 1982 Forecasts	
	CIA	Japanese Government	CIA	Japanese Government
Domestic demand	0.7	1.5	3.0	4.1
Foreign demand	2.8	2.5	1.3	1.1
GNP	3.5	4.0	4.3	5.2

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Roughly one-third of FY 1982 GNP growth should come from the foreign sector, a significant drop from the almost 80-percent contribution this year. As the yen appreciates, exports should slow to an 8-percent annual increase, down from 11 percent in 1981.

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Imports, made cheaper by the appreciation, could increase by 4 percent compared to a 3-percent decline this year. Even so, the current account surplus will remain large and should exceed \$18 billion. []

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An Alternative Outlook

Our forecast assumes a slow but steady world economic recovery throughout FY 1982, with world trade increasing about 5 percent. If the OECD recession is more prolonged and if world trade expands only 3 percent in 1982, Japan's GNP growth would fall to less than 4 percent. Corporate investment would slack off in response to weaker foreign demand. Consumer spending would slow as industrial production and demand for overtime weakens. Export growth would drop by almost 2 percentage points while imports, mainly raw materials and mineral fuels, would slip a little as firms slowed inventory accumulation. Because of export losses, the current account would fall \$4 billion, to \$14.5 billion. []

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Suzuki's Options

Faced with a growing trade imbalance, a sluggish domestic economy, and falling tax revenues, Suzuki may be forced to soften the deflationary impact of the budget. Because of his political commitment to government reform, however, we do not believe he will abandon fiscal austerity, but he may opt to relax

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monetary policy further. While boosting the housing industry, this could slow yen appreciation, enhance the competitiveness of Japan's exports, and increase the trade surplus. []

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Another possibility is to advance the schedule for FY 1982 general accounts expenditures to stimulate domestic activity. []

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[] Suzuki seems to be moving in this direction. He has adjusted the ceiling on government borrowing in January-March to prevent a shortfall in public spending because of slipping tax revenues. []

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Debate on economic policy will heat up as November approaches, when Suzuki's first term as president of the ruling LDP ends. In seeking reelection he has pledged to complete the government reform program and solve the trade problem with the United States and EC. One of his principal opponents for the top post will be EPA Director Komoto, whose pessimistic outlook for the economy probably reflects some political maneuvering to stake out a position as an advocate of more government stimulation. []

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Japan: Impact of OECD Growth on Forecasts for Real Economic Growth and Trade, 1982

Percent Change
Except Where Noted

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	CIA Forecast		OECD Recession Scenario	
	FY	CY	FY	CY
GNP	4.3	4.3	3.9	3.9
Consumption	2.6	2.0	2.5	2.0
Corporate investment	4.3	3.3	4.1	3.2
Residential construction	5.9	4.8	5.8	4.7
Consumer price index	4.1	3.8	4.2	3.9
Wholesale price index	0.6	0.7	0.5	0.7
Exports of goods	7.3	8.3	8.9	6.4
Imports of goods	4.4	3.7	4.1	3.6
Contribution to GNP Growth				
Domestic demand (percentage point)	3.0	2.6	2.9	2.6
Foreign demand (percentage point)	1.3	1.7	1.0	1.3
Current account balance (billion US \$)	19.3	18.5	15.3	14.5
Assumptions:				
Government consumption	3.6	4.3	3.6	4.3
Government investment	2.4	2.6	2.4	2.6
World import volume (excluding Japan)	4.6	4.5	3.4	3.0
Exchange rate (yen per US \$)	212.5	215.0	212.5	215.0

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The Philippines: Repackaging Martial Law

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One year after the lifting of martial law, the substance of President Marcos's emergency powers survives, and progress toward restoring greater democracy in the Philippines remains limited. Marcos continues his efforts to politicize the judiciary, keep the interim National Assembly impotent, and retain unlimited executive powers. This approach erodes support for his regime and provides impetus for the further growth of radical political groups. The President's actions over the past year show that Marcos will allow political liberalization to proceed only as long as the power and interests of Marcos, his family, cronies, and key elements of the military are preserved.

Token Liberalization

Marcos ended eight years of martial law last January in an emotional ceremony at Malacanang Palace. Citing economic gains and progress in restoring law and order, the President took what many Filipinos hoped would be the first step toward restoring democracy. To ensure his continued dominance in a strong executive branch, however, Marcos held a plebiscite in April to amend the 1973 Constitution. The amendments instituted a French-style mixed presidential-parliamentary system with a six-year presidential term. Marcos was reelected to the presidency in June in an election boycotted by virtually all major opposition groups and criticized by them as a fraud. Marcos's broad executive powers and his ability to limit dissent have been unaffected. Although the lifting of martial law may have enhanced Marcos's political image abroad, he retains these crucial powers:

- Suspension of the writ of habeas corpus for all crimes against national security.
- Sweeping emergency powers to issue any order he may deem necessary to meet a crisis, including the powers of preventive detention, closing down the media, and controlling admissions to schools.

- Broad legislative powers he held under transitory provisions of the 1973 constitution by issuing — and probably antedating — presidential decrees.
- The right to transfer cases from civilian courts to military tribunals established during martial law. Although the tribunals are to be dismantled once 50 remaining cases are concluded, this is unlikely to happen any time soon.
- The power to force compulsory arbitration in labor disputes when he deems it in the national interest.

Neutralizing the National Assembly

Although the end of martial law signaled the transfer of more legislative authority to the National Assembly, Marcos has undermined its power by his continued use of presidential decrees. During martial law all presidential decrees, proclamations, orders, acts, and instructions became law unless explicitly overturned by the interim National Assembly — then called into session only at the discretion of the President. Over 1,000 decrees became law in this manner. The opposition claims that as many as 250 of the decrees are secret — that is, listed merely by number in the official gazette, with their texts unpublished. Marcos can tap an unpublicized and thus unchallengeable inventory of his own rules.

He can detain and try troublesome political opponents for unspecified crimes, as in the case of charges pending against opposition leader Benigno Aquino, who currently resides in the United States. Moreover, decrees allow the President to circumvent the legislature in matters clearly not of an emergency nature, as recently happened when Marcos granted tax amnesty by presidential decree.

Politicizing the Judiciary

Marcos has effectively rendered the court system politically beholden to the executive branch. The

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Judiciary Reorganization Act of 1980, signed into law in August 1981, gave Marcos the authority to fire all judges—ostensibly in an attempt to streamline the judiciary and remove incompetent or corrupt judges. Rehiring will take place only after each judge is investigated and Marcos will make all final decisions on reappointments to the bench.

Even pro-Marcos judges are appalled by this blatant takeover of the judicial system. Some who did not feel the independence of the judiciary was threatened during martial law now are highly critical of the President's actions.

The decline of the court's role as an institutional counterweight to presidential power is well illustrated by this manipulation of the judiciary and the record of the Supreme Court since martial law was lifted. For example, although the Supreme Court warned the military against violating individual human rights in a decision last September, one justice admitted that the decision lacked teeth and could not be enforced. Since then the court has affirmed the authority of military courts to try cases pending from martial law days, upheld antismuggling laws, and reaffirmed the suspension of the writ of habeas corpus in certain cases, although it will continue to hear individual cases seeking a review of the writ.

Polarization of Politics

While outmaneuvering the moderate opposition at every turn, Marcos's actions are encouraging groups at both extremes of the political spectrum. The Communist New People's Army (NPA) and its National Democratic Front (Natdem) organizations increasingly are looked upon as an attractive political alternative, especially among the young. The boycott of the 1981 election called for by the moderate opposition was in many areas engineered by NPA/Natdem groups long active at the grass-roots level. Moderate opposition groups are reporting defections to the left in large numbers and have felt compelled to adopt more hardline rhetoric.

Even the traditionally conservative Church has become more outspoken over the past year. Cardinal Jaime Sin recently defended rebel priests who have

gone over to the NPA, claiming that they are merely "identifying with the people around them." His remarks prompted government rebuttals in the press attempting to link at least seven priests to subversive organizations.

The presence of the military in much of the country is resented and abets political polarization. Having become a dominant force in rural areas during martial law, the military retains considerable responsibility for preserving the peace there and is particularly visible in areas of insurgency. Human rights abuses by the military continue. A new development detracting from the military's image are extremist vigilante groups—reportedly linked to senior officers in the military, including Defense Minister Enrile. The massacre last September of 45 civilians in Samar was reportedly committed by the Lost Command, a quasi-official paramilitary group of former and acting members of the military.

Despite these disturbing trends, the lifting of martial law has meant an increased level of tolerance for certain opposition activity. Student demonstrations and labor strikes have occurred with some frequency—and for the most part without incident—during the past year. The press, although largely controlled by people loyal to Marcos, has been more vocal on political issues.

The Year Ahead

There are some outward signs that Marcos will encourage the active development of moderate political parties, but he has yet to demonstrate that he is prepared to do much more than let disorganized moderate opponents lend credibility to his claims of running a democratic government. The President's recent decision to review radio and television broadcasting permits was a sharp reminder to media owners that they would be wise to remain loyal to the first family.

Local elections slated to be held by July 1982 will test Marcos's willingness to allow new parties to organize and to court a grass-roots following. If a recent decision by the ruling party withstands expected court

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challenges, candidates will not be allowed to run under their party banner, thereby frustrating plans by the opposition to use the local elections to prepare for legislative elections in 1984. Two new political parties have been announced, but they further split opposition ranks rather than offer any alternative for defeating the President's supporters.

Another key test of Marcos's intentions will be the issue of party accreditation, which is necessary for participating in the elections. Political Affairs Minister Perez claims that the National Assembly will enact legislation this month that will make party accreditation easier. Presumably, one of the new parties will gain accreditation at that time; Marcos has already hinted that the other new party will not.

Marcos's manipulation of the judiciary, National Assembly, and the executive branch have produced widespread cynicism among Filipinos, but this has yet to be channeled into an opposition capable of unseating the government. The moderate opposition is divided and has been unable to capitalize on the eroding support for the government. Such liberalization that occurs during the year will come only at a pace that is acceptable to Marcos.



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**East Asian
Briefs****China****Reassuring Troops From Rural Areas**

Beijing has again directed China's provinces, municipalities, and autonomous regions to make special provisions in rural areas for soldiers and their dependents. China's system of allotting farmland according to the number of workers per family and then rewarding those who meet or exceed contracted output quotas tends to penalize families with members on active duty. The State Agricultural Commission and the Ministry of Civil Affairs recently issued a joint circular announcing that soldiers and their families will be entitled to reserve their share of farmland, even though the family has a serving soldier and is thus short handed and unable to work its entire allotment. The circular also requires local production teams to provide rations to demobilized servicemen who are returning home in record numbers until they receive their land. The new measures supplement an earlier policy that allowed cash and grain subsidies to rural army dependents but which was not well implemented in many localities. []

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Beijing hopes to raise morale by reassuring soldiers troubled by the prospect of unemployment upon demobilization or by the feeling that their families are victimized by China's agricultural reforms. Although perhaps relieving some anxieties, the new measures will almost certainly add to the difficulties of rural cadre who will have to administer them. To provide for the soldiers, cadre will have to reallocate farmland already assigned to other families. Grain subsidies for demobilized troops awaiting land are an additional burden to production teams that also support other army families. The new policy may therefore complicate the implementation of Beijing's agrarian reforms as well as the assimilation of returnees who are often unwelcome because they disrupt production arrangements established in their absence. []

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Semiannual Guangzhou Trade Fairs Downgraded

Beginning this spring, the fairs will run for three weeks instead of four and will be reduced in scope. The spring fair will focus on heavy industrial goods, and the fall fair on light industrial and agricultural goods. The Guangzhou Trade Fairs, which date back to 1957, were once China's primary means for exhibiting and selling export goods; they also facilitated a variety of imports. Although the fairs were responsible for almost half of China's foreign trade, their importance has diminished as minifairs and direct negotiations between foreign trade corporations and provinces and even factories have become the norm. []

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Still, a substantial number of trade agreements are transacted at the fairs. Chinese sales totaled \$2.6 billion at the 1981 Fall Fair, and the fairs will remain a good forum for smaller traders to make contacts and negotiate business. The smaller fairs should facilitate business transactions and reduce the complaints of foreign traders about inadequate housing, tedious negotiations, delayed payments, unreliable fulfillment of contract terms, and irregular travel and visa requirements.

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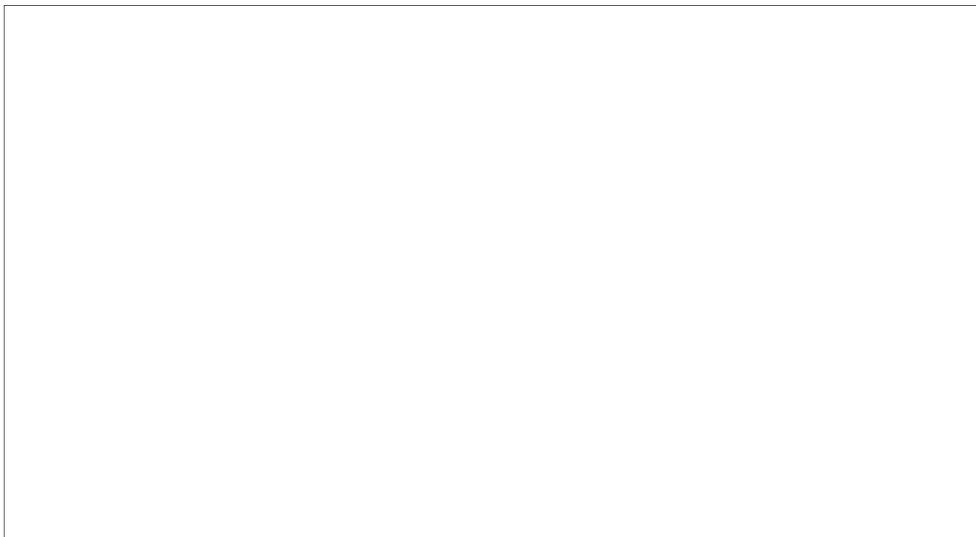
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New Forestry Policies Benefit US Lumber

To help save their dwindling forests, the Chinese plan to reduce annual output of cut lumber by about 10 percent for the next four years and make up much of the shortfall through imports. The US lumber industry is expected to supply much of the imports. China has already lowered its duties on timber, and shipments from the United States, which totaled \$43 million in 1980, have been increasing.

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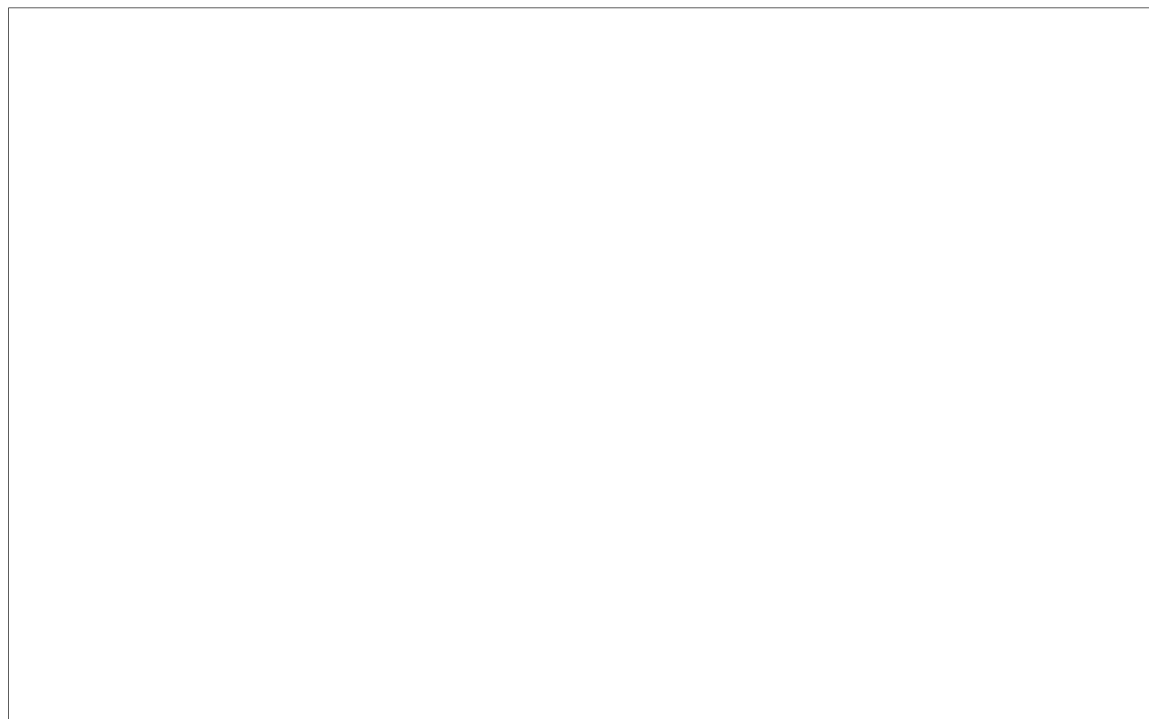


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**South Korean Cabinet Changes Designed To Boost the Economy . . .**

President Chun Doo Hwan, hoping to boost business confidence in his economic policies, has replaced his principal economic ministers with a team that has strong business and banking credentials. The new team will maintain the government's priority on slowing inflation, but it will probably give greater consideration to business viewpoints in economic policy making. A limited stimulative package, which included a reduction in interest rates and additional financial support for housing construction, was announced last week. Initial reaction from the business community to the Cabinet changes has been favorable and the investment climate should improve.

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The appointees:

- Yoo Chang Soon, a former Minister of Commerce and Industry (1962-63) and Economic Planning (1963), replaces Prime Minister Nam Duck Woo, who had been associated with South Korea's recent economic doldrums.
- Kim Jun Song, Yoo's deputy, brings extensive public and private banking experience to the number-two position and will serve concurrently as head of the Economic Planning Board.
- Na Ung-pae, the new Minister of Finance, is a former member of the National Assembly with strong academic and managerial experience.
- The new Minister of Construction is a retired general turned businessman.
- The only career government official on the team brings considerable experience in international economic cooperation to the energy and resources portfolio.

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... Shifts at the Blue House Strengthen a Key Adviser

Ho Hwa-pyong, one of Chun's closest advisers, was promoted to First Senior Secretary for Political Affairs in late December. Ho is now at the apex of the staff, even though theoretically he is subordinate to the Blue House secretary general. The new secretary general, Yi Pom-sok, a skilled foreign service professional, lacks the clout to make the position politically meaningful. His predecessor, Kim Kyong-won, was a holdover from the Park Chung Hee regime but has been moved out of the Blue House to the UN Observer Mission where he will preside over Seoul's efforts to assume a more active role at the UN. []

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Further down the hierarchy, Presidential Secretary for Political Affairs Ho Mun-to has been demoted to vice minister in the Ministry of Culture and Information. []

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[] More changes may occur. Ho's vacant post needs to be filled, and it has long been rumored that Chun will appoint another of his key advisers, Ho Sam-su, as director of the important Agency for National Security Planning. []

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North Korea To Hold Elections

North Korea will hold elections on 28 February for the Supreme People's Assembly (SPA) - the national-level, rubberstamp legislative body. The "Seventh" SPA will be convened some time after the election, probably in late March or early April. That meeting will be used to announce a slate of government appointments, extending from the President to a full Cabinet. The current Cabinet was installed in late 1977 at the convening of the Sixth SPA. The assembly is supposed to be reelected every four years but delays are not uncommon. []

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All signs indicate that Kim Il-song, who will be 70 years old on 15 April, will retain all the top government posts: President, commander in chief, chairman of the Central People's Committee - a super cabinet-type body that oversees the regular Cabinet (the State Administrative Council). Nevertheless, the SPA meeting could be used to award a top government post to Kim Chong-il, Kim Il-song's eldest son and heir. Kim Chong-il already holds a number of top party posts but no government post. He is the fourth-ranked member of the Political Bureau of the Korean Workers Party, the second-ranking secretary on the Secretariat of the party Central Committee, and the third-ranking member of the Military Committee of the Central Committee. []

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Southeast Asia**British Ambassador Appraises Vietnam at Year's End**

The Ambassador believes that economic problems have been the major concern of the leadership over the past year but that these problems will not soon lead to any significant change in Vietnam's foreign or domestic policies. []

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Economic problems were considered serious enough to compel Hanoi to adopt a new approach last year. Greater incentives for producers and independence for managers and free market traders were offered to stimulate the economy:

- Their introduction has, according to the Ambassador, merely resulted in higher retail prices, devaluation of the Vietnamese currency, and a sharp intraparty debate over the liberalization.
- The Ambassador believes the deteriorating economic situation means that the flow of Vietnam "boat people" (about 6,500 per month) will not abate. []

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Continuing shortages of food and consumer goods have pushed the Vietnamese even further into Moscow's embrace, despite disputes between the two over Soviet complaints about the "appalling wastage" of aid. []

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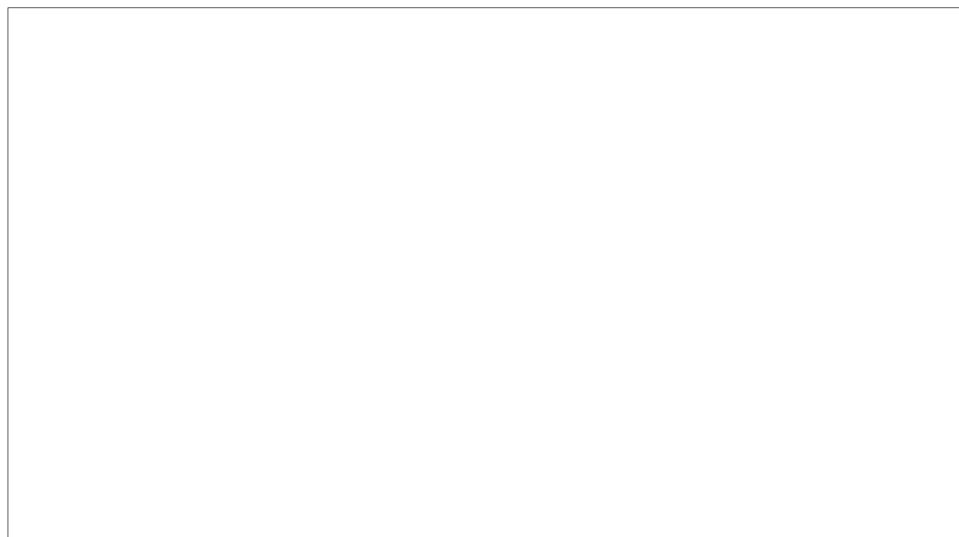
Regarding Kampuchea, the Ambassador believes the Vietnamese position has hardened. The heavily Soviet-subsidized occupation has little direct cost for Hanoi. The Ambassador believes, as we do, that Vietnam will not be inclined to compromise as long as Soviet aid continues. []

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Hanoi believes that its persistence and its recent overtures to Malaysia and Indonesia will eventually undermine ASEAN unity over Kampuchea. In the meantime, the Ambassador argues that a resistance movement still dependent on the unsavory Khmer Communists gives Hanoi "the best possible excuse" for staying in Kampuchea. []

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ASEAN Unable To Curb Aid to Vietnam

ASEAN has been none too successful in its efforts to prevent Vietnam from receiving aid. In December:

- France, despite repeated ASEAN demarches, signed a protocol with Vietnam for \$34 million in credits and aid, part of which the French claim will be used as compensation to French citizens whose properties have been nationalized by Vietnam.
- Japan, without prior US or ASEAN consultation, decided to provide \$150,000 in supplies to a Japanese-built hospital in Ho Chi Minh City through the Japanese Red Cross.
- The EC Commission agreed to provide three nongovernmental charities — an English, a German, and a French — with over \$300,000 “emergency aid” for Vietnam in the form of medical supplies and equipment.

[REDACTED]

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The EC, Japanese, and French decisions to provide humanitarian aid are aimed at lessening Hanoi's dependence on the Soviet Union. But the coincidental timing of these aid packages will probably be viewed by Hanoi and its allies as underlining the weakness of the ASEAN strategy for dealing with the Kampuchean problem.

[REDACTED]

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Indeed, within ASEAN, there are differing views over the efficacy of withholding aid to isolate Vietnam. Indonesia and Malaysia disagree with the hard line because they believe that foreign assistance could help bring Hanoi to the negotiating table and also decrease its dependence on the Soviets. Jakarta and Kuala Lumpur, nonetheless, have not pushed their differences publicly for the sake of maintaining a unified ASEAN stance. [REDACTED]

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Philippines: Urban Terrorism Threat

Two anti-Marcos terrorist groups have warned several foreign embassies not to participate in the International Film Festival scheduled for 18-29 January because of plans to bomb the International Film Palace. One of the groups, the radical April Sixth Liberation Movement, carried out a series of bombings in Manila in 1980, including an attack at the meeting of the American Society of Travel Agents. Advance warning was given of that bombing. [REDACTED]

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The Movement may be selecting targets clearly associated with the Marcos family. Both the construction of the International Film Palace and the holding of the festival are pet projects of Mrs. Marcos. [REDACTED]

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President Marcos is implementing special security precautions, although the group has not followed through on other recent threats against visiting dignitaries. The government is confident that the Movement has been effectively quashed and believes the warnings are a hoax designed to engender fear. [REDACTED]

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The Movement, which has been linked to members of US-based opposition groups, considered its previous terrorist campaign a tactical error because it split the opposition, failed to win expected public support in Manila, and depleted the ranks of the Movement's activists, many of whom were arrested following the attack on the meeting of travel agents. []

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Indonesia Moving Toward Elections

President Soeharto has become so confident of victory in next May's national elections that he is risking some politically unpopular moves. In recent weeks he has:

- Commuted the sentences of two top architects of the abortive 1965 Communist coup from death to life imprisonment.
- Approved a public trial for Imron, the accused mastermind of last year's Muslim terrorist attacks on a police station and the subsequent hijacking of an Indonesian airliner to Thailand.
- Announced that domestic prices for gasoline, kerosene, and other petroleum products will rise by 60 percent as the result of government cuts in budget subsidies. []

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Soeharto's reduction of the sentences for former Foreign Minister Soebandrio and Air Force chief Umar Dhani will not sit well with the Muslim masses or even many members of the military, who remain firmly anti-Communist. These groups also will not favor Soeharto's decision to allow recently freed Communists to vote in the coming election. Over a million alleged Indonesian Communist Party members could vote, the first time they would be allowed to do so, but they will constitute only 1 percent of the electorate. []

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Soeharto almost certainly believes that he is in a sufficiently strong position to risk an open trial of fundamentalist Imron, who had enough support to pull off the hijacking. The trial could prompt emotional antigovernment accusations or even more Muslim terrorism. []

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The decision to raise petroleum prices is the riskiest of all. Most observers believe that the price hikes were necessary to balance the budget, but each domestic price rise throughout Soeharto's 15-year tenure had led, at a minimum, to extensive public grumbling and at times to serious street rioting. Soeharto probably acted now to avoid creating a sense of betrayal that would occur if he waited until after the elections to make the announcement []

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Soeharto Actions Spark Devaluation Rumors

Many local businessmen suspect a devaluation may occur after the presidential election in 1983, a move similar to one made in 1978. Firms are now debating whether Soeharto's decision on fuel and food subsidies indicates that he may

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devalue before the parliamentary election this May. Many are avoiding large rupiah holdings and the press is again reporting rumors of capital flight to Singapore. To squelch devaluation rumors, the Central Bank intervened last month to halt a brief slide in the exchange rate. Some observers suggest that Jakarta is considering a multiple exchange rate system that would boost nonoil exports without raising local prices. []

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Although Indonesia has run large payments surpluses in recent years, the rupiah has been losing competitiveness because of domestic inflation and its linkage to the US dollar. Combined with weak international markets for timber, rubber, and other major commodities, the overvalued exchange rate contributed to a 50-percent drop in the volume of Indonesia's nonoil exports during 1981. []

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Antinuclear Sentiment Strengthens in the South Pacific

South Pacific island nations, dismayed last summer when the new French Government decided to continue its nuclear testing program, have been upset further by Paris's recent announcement that it would reactivate another test site in French Polynesia. Reports that radiation is leaking from the French test site have further inflamed regional sensitivities. A threatened boycott of French shipping by dockworkers in Papua New Guinea could spread to other islands. []

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High emotions over nuclear issues have prompted South Pacific nations to view a Japanese invitation to inspect its domestic nuclear installations as a ploy to soften opposition to Tokyo's plans for dumping low-grade nuclear waste in the Pacific. Publicity about a US proposal to dispose of spent reactors from nuclear-powered submarines in South Pacific waters would quickly focus antinuclear criticism on the United States. Officials in New Zealand and Fiji are already reacting very negatively to US notification of the disposal study. []

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Malaysia-US Clash Over Tin Continues

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[] vehemence of Kuala Lumpur's recent protest to the United States over GSA tin stockpile sales. Malaysia apparently felt that the Sixth International Tin Agreement, due to go into effect in July 1982, would not be ratified by consuming countries and began to stabilize prices on its own. The Mahathir government probably did not anticipate that GSA would undercut this price stabilization strategy by selling tin from its own enormous stockpile, which at 200,000 tons is equal to one year of free world production. When GSA began stockpile sales to the international market last month to finance acquisition of more important metals, Kuala Lumpur formally protested to US authorities. []

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Prime Minister Mahathir is probably the driving force behind the price stabilization scheme. Malaysia's initial market intervention coincided with his taking office last summer, and the two companies charged with managing the purchases were established at his behest. Moreover, an aggressive approach over commodity issues is typical of Mahathir's style in dealing with industrial nations. [REDACTED]

When the 25th session of the International Tin Council meets in London this week to review prices, Malaysia and other producing countries are likely to take a firm stand against GSA sales. Moreover, Malaysian Trade and Industry Minister Rithaudeen has announced that GSA stockpile reductions will be a key topic in the ASEAN-US economic dialogue in March. Many tin producers have already expressed dissatisfaction over tin prices. [REDACTED]

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Calendar of Coming Events

January 1982

28-29 January

Fifth ASEAN-Japan Forum meets in Jakarta.

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25 January

Japanese Diet reconvenes; deliberations on 1982 budget begin.

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Late January

High-level Japan-EC talks in Tokyo.

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Kampuchean National Assembly may meet to select new premier to replace Pen Sovan.

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4 February

UN-sponsored conference for donors of aid to Kampuchea.

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7-12 February

North Korean Premier Yi Chong-ok to visit Thailand, may also visit other ASEAN countries and Burma.

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13 February 26 April

Joint annual US-South Korean military exercise "Team Spirit" to be held in South Korea.

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16 February

Birthday of Kim Chong-il, eldest son and heir of North Korea's Kim Il-song.

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